

**PACE INDUSTRIES LTD.
REPORT TO SHAREHOLDERS**

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PACE INDUSTRIES LTD.

OFFICERS AND DIRECTORS

G. Arnold Armstrong, Chairman of the Board
Harvey Dick, President
L. Gary Kenwood, Director
Keith Baldwin, Director
Nathan Frankel, Director
William Goodbrand, Director
Angus McKay, Director
John Urban, Director
Richard Rude, Director

OFFICIAL INFORMATION

Head Office: 1860 One Bentall Centre, 505 Burrard Street,
Vancouver 1, Canada
Registrar and Transfer Agent:
Guaranty Trust Company of Canada, Vancouver
Stock Listing: Vancouver Stock Exchange

Subsidiaries

OLY FOOD SERVICES LTD.

Head Office: 581 Granville Street, Vancouver 2, Canada
Chief Executives: William Goodbrand, President
Angus McKay, Vice-President

NATIONAL OVEN PRODUCTS, INC.

Head Office: 3410 A Street South East,
Auburn, Washington 98002, U.S.A.
Chief Executives: John Urban, President
Richard Rude, Secretary

SPUDNUT INDUSTRIES, INC.

Head Office: 450 West 17th South, Salt Lake City 15, Utah, U.S.A.
Chief Executives: William A. Pelton, President
Derwood Staples, Executive Vice-President

WEST COAST VENDING LTD.

Head Office: 8280 Manitoba Street, Vancouver 15, Canada
Chief Executive: Irving Levenson, President

Cover photo:

Little Oly's famous "Hungry Boy" sandwich — sold by the inch.

PACE INDUSTRIES LTD.

To the shareholders:

Your directors wish to take this opportunity to welcome the many shareholders who have joined Pace during the past year. This is our first full report and is intended to outline the present operations of the companies within Pace, and our plans for the future of the Company.

Pace Industries Ltd., a holding company with headquarters in Vancouver, was incorporated in British Columbia on August 23, 1965, with the prime objective of acquiring privately-owned companies. This policy still guides Pace, which has developed an international food distribution division embracing four subsidiaries.

Initially, Pace acquired a 50 per cent interest in Oly Food Services Ltd. During 1968, we increased to 100 per cent our interest in Oly's and also acquired 100 per cent ownership of National Oven Products, Inc., and Spudnut Industries, Inc. In January, 1969, we purchased West Coast Vending Ltd. (formerly West Coast Canteen Ltd.).

In 1965, Pace sales, reflecting the 50 per cent position in Oly's were only \$50,000. Had we held a 100 per cent position in all our present subsidiaries, Pace sales in 1968 would have been in the neighbourhood of \$5.5 million. Combined sales of our subsidiaries for the year ending December 31, 1969, are expected to be in excess of \$7 million.

All four companies combine strong management with attractive growth potential. They also have the capacity to dovetail into an integrated food division without neglecting their individual markets.

Our two U.S. subsidiaries, National Oven Products and Spudnut Industries, are pooling their talents and already have set up mutual marketing outlets.

In Vancouver, West Coast Vending is providing space for a commissary to be used by Oly's. The two Canadian companies combined offer a full range of food service.

The individual companies controlled by Pace are operated autonomously and are responsible for their own day-to-day operations. The corporate headquarters is responsible for providing capital, accounting and legal advice, and for directing our long-term planning.

We feel that this food division gives Pace an excellent base from which to expand. During 1968, all our subsidiaries were profitable despite the fact that several individual units showed losses due to heavy start-up expenses. These particular locations are now beginning to show profits. Conservatively, Pace expects to show a net profit of between five and eight per cent on the projected sales volume for 1969.

We are confident that there are tremendous opportunities for further development and expansion within our present subsidiaries. While our efforts will be concentrated mainly on internal development, we will continue to give careful consideration to other potential acquisitions.

An underwriting of 200,000 shares at \$7 per share on March 17th placed Pace in a healthy cash position. There are currently 1.1 million shares issued, and 100,000 share purchase warrants at \$7.50 a share are exercisable over the next five years.

Pace was listed for trading on Vancouver Stock Exchange on March 17th. This is of obvious benefit to our shareholders throughout North America.

Finally, we should like to welcome to the Board the six new directors elected at our annual meeting in January — Keith Baldwin, president of Captain International Industries Ltd., Nathan Frankel, managing director of CII, William Goodbrand and Angus McKay of Oly Food Services Ltd., and John Urban and Richard L. Rude of National Oven Products.

Vancouver, B.C.
March 26, 1969.

G. Arnold Armstrong, Chairman of the Board
Harvey Dick, President

OLY FOOD SERVICES LTD.

Oly Food Services Ltd., owners of the fastest-growing restaurant and malt bar chain in Western Canada, was the first privately-held company to come under Pace control.

Pace initially took a 50 per cent interest in this Vancouver-based company and purchased all remaining shares during 1968.

Incorporated in British Columbia in September, 1963, Oly Food Services was founded by William A. Goodbrand and Angus A. McKay, both former executives with the Hudson's Bay Company. They were elected directors of Pace at the January, 1969, annual meeting.

Oly Food Services had made consistent progress with sales of \$408,000 in 1966, \$935,000 in 1967 and \$1,358,000 in 1968.

Main interest of Oly Food Services is its lucrative chain of malt bar and soup and sandwich shops, all promoted under the "Little Oly" trade name.

These outlets are aimed at attracting a high volume business. Emphasis is on small, specialty menus and rapid service. All are located in areas of high pedestrian activity — downtown districts and popular shopping centres.

The malt bars are particularly profitable. They are operated by no more than two persons and offer only quick-serve hot dogs, malt drinks and the best-selling "Orange Oly" drink.

The soup and sandwich shops are the favorites of office workers and shoppers who cannot spare the time for a full-course

meal. They offer a limited number of quality products served in clean, colorful surroundings.

At the end of 1968, Oly's operated three soup and sandwich shops, seven malt bars, one snack bar and the full-menu Four Worlds Restaurant in downtown Vancouver.

Four further outlets were also in operation in the main Vancouver store of the "T. Eaton Company of Canada" chain. Oly's manages all the restaurant facilities in this store and is hopeful that this will lead to similar restaurant management agreements.

An ambitious expansion program was started early in 1969. Another soup and sandwich shop has been opened in downtown Vancouver and a combined malt bar-restaurant will be opening shortly on the north side of the well-patronized Park Royal Shopping Centre in West Vancouver.

"Little Oly" is destined to make his debut in both Washington State and Ontario this year. Suitable malt bar sites are being scouted. Another projected development for 1969 is the franchising of "Little Oly" soup and sandwich shops.

School feeding is another new market opening up for the company. In January, Oly's took over all catering services at Handsworth Secondary School in North Vancouver. This is a pilot project, but initial results indicate that Oly's will be operating in other North Vancouver schools by the fall.

The commissary being established on the West Coast Vending site will allow the company to cut costs and meet the growing demands generated by the success of its various divisions.

A major compliment was paid to Oly's by the selection of the company as the sole food purveyor in the British Columbia Pavilion at Expo 70 in Osaka, Japan. A "Little Oly" malt bar will be installed in the pavilion and visitors will be able to buy all the products available in Canadian outlets and, in addition, B.C. soft apple cider.

Management is confident that this exposure in Japan will aid the company's plans to set up a "Little Oly" malt bar chain in the Far East.

A. Popular soup and sandwich shops offer wide variety of a limited number of products.

B. Several malt bars are located inside large department stores. This unit is in Eaton's store at Brentwood Shopping Centre, Burnaby, B.C.

C. Oly's contribution to complete catering service at Handsworth Secondary School, North Vancouver, B.C.

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NATIONAL OVEN PRODUCTS, INC.

National Oven Products, Inc., incorporated in Washington State in January, 1967, was the first United States corporation to join Pace.

Pace initially acquired a 57 per cent interest in the company and acquired the remaining 43 per cent during 1968.

Chief executives and founders of National Oven Products, John Urban, formerly a vice-president of the Bank of Alaska, and Richard L. Rude, former owner of a successful charter airline in Alaska, were elected directors of Pace in January, 1969.

National Oven Products specializes in the manufacture of a wide range of frozen dough products. Sales statistics show the growth capabilities of the Auburn-based company. In 1965, when in business as Washington Bake-N-Serve, sales were \$692,000; sales in 1968 improved to \$1.2 million.

The company has two production bases. A new, 18,000 square foot plant at Auburn has sufficient space to allow a 50 per cent increase in present production. The second plant, 8,500 square feet in size, is at Loveland, near Denver, Colorado. These plants manufacture between 500,000 and one million pounds of frozen dough each month. The dough is used for nine different varieties of bread, a similar number of bread rolls and for a wide range of pastries.

Production is truck-shipped to customers in Washington

State, Oregon, Idaho, Montana, Wyoming, Colorado, Nebraska, New Mexico and Utah. At the end of 1968, National Oven Products sold its output to 20 wholesalers, who provided retail exposure in more than 5,000 supermarkets, including the Safeway chain.

These frozen dough products, sold under the "Rhodes" label in the United States, are consistently amongst the 10 top-selling frozen food items in their market area. No artificial ingredients are used in the products, giving them a quality unequalled by any rivals, and allowing a shelf life several times that of competitive brands.

In keeping with the company's policy of expanding its product line, frozen non-baked doughnuts are produced in both plants and sold to "Spudnut" outlets. This successful marketing arrangement led to National Oven Products taking over Spudnut Industries, Inc., on behalf of Pace.

This purchase, completed in September, 1968, has brought immediate benefits to both U.S. companies. Costs are being trimmed by centralizing departments. The firms are steadily merging into a single organization.

While both companies will continue to pursue their traditional markets, they are setting up mutual marketing outlets through the introduction of the "SPUDNUT BAKESHOP" franchise concept. More details on this venture can be found in the section on Spudnut Industries.

National Oven Products has made a small, but successful, entry into Canada where Woodward's, a major department store chain, is retailing the frozen dough in its main Vancouver store. In Canada, the products are sold under the "Alberta U-Bake" label.

A market research program has been underway in Canada for more than six months and indicates a large consumer demand for frozen dough products. Consequently, National Oven Products is establishing a production plant at the West Coast Vending Ltd. site in Vancouver.

Management is confident that frozen dough products will continue to gain in popularity throughout North America. The company's institutional trade continues to improve. Institutions and other large users of dough are finding it increasingly difficult to attract bakers willing to start work in the early hours of the morning. Frozen dough, which trims production time from hours to minutes, is providing the solution to this labor problem.

A. Ranks of dough "flash freezers" stand in spotless surroundings at Auburn plant.

B. Frozen bread dough comes off production line. Up to one million pounds of frozen dough is produced each month.

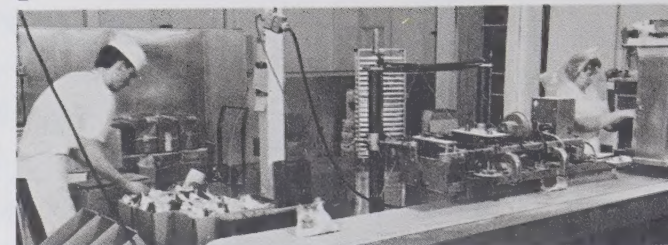
C. Section of fleet of company trucks used to ship products to wholesalers in 10 States.

D. View of "Spudnut" production facilities at new Auburn plant.

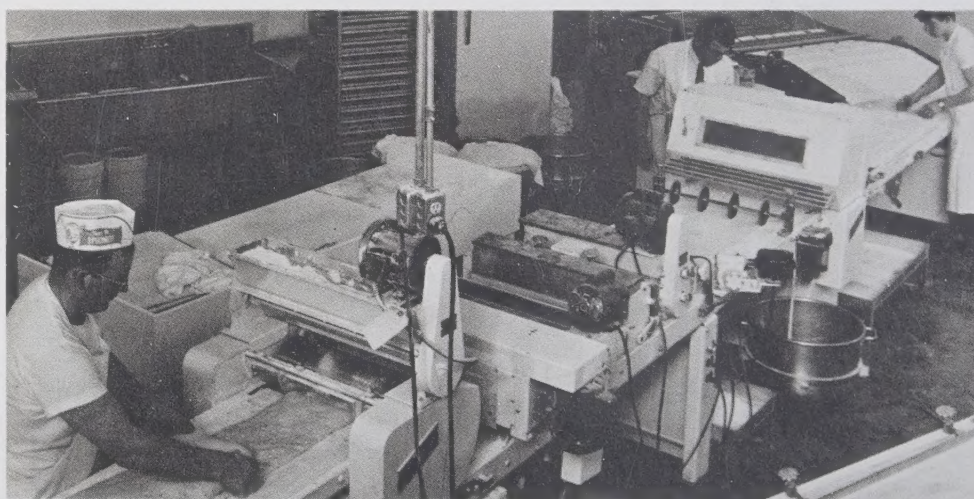
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SPUDNUT INDUSTRIES, INC.

Spudnut Industries, Inc., the oldest and one of the largest doughnut franchise chains in the United States, was founded in 1940 by William A. Pelton and his brother, Robert Pelton.

Based at Salt Lake City, Utah, the company last year supplied Spudnut products to 315 franchise holders whose combined sales were \$25 million. Company sales have been virtually static for the past few years and totalled \$1.32 million (U.S.) in 1968.

Foundation of Spudnut's progress is a secret formula used to make delicious, raised potato doughnuts. Franchise holders either buy the Spudnut mix or the new flash-frozen doughnuts which can be heated and served in six minutes. The flash-frozen process, which allows the franchise holder to operate without any high-salaried labor, opens the way to the new "SPUDNUT SATELLITE SHOP", a franchise concept requiring a minimum amount of space.

The Satellite Shop was a key selling point in the distribution agreement between Spudnut and the Fujiya Confectionery Co. of Tokyo. Fujiya plans to open 200 Spudnut outlets in Japan during the next two years.

As a private company, Spudnut had to limit its ambitions. Pace is supplying the company with the capital and extra management required to stimulate growth. Spudnut is now

aiming for 350 franchise holders by the end of 1969 and 600 within the next few years.

Main production centre for the company is at Salt Lake City where up to 500,000 pounds of mix are produced each month. Other production facilities are located at Seattle, Denver, Indianapolis, Champaign-Urbana, Ill., Hartford, Conn., and San Francisco.

These production units provide a ready-made base for the launching of the "SPUDNUT BAKESHOP" — compact bakery units capable of producing all types of breads and pastries from frozen dough. These units will be franchised, and they will feature products manufactured by both Spudnut and National Oven Products.

Attractively designed, these Bakeshops will be promoted across North America and have the potential to lift dramatically the sales of both companies. The Bakeshops are being aimed at grocery stores and large national chains. They will be franchised at a minimum price of \$20,000 each.

Each production unit is capable of supporting at least 20 Bakeshops. To augment the present centres, similar units will be established during 1969 in Dallas, Los Angeles and St. Louis.

The Bakeshop program has made a promising start. An important discount house chain is negotiating for a unit

to be installed in one of its stores in the San Francisco area. This could be the forerunner to a string of "SPUDNUT BAKESHOPS" all the way along the West Coast of the United States.

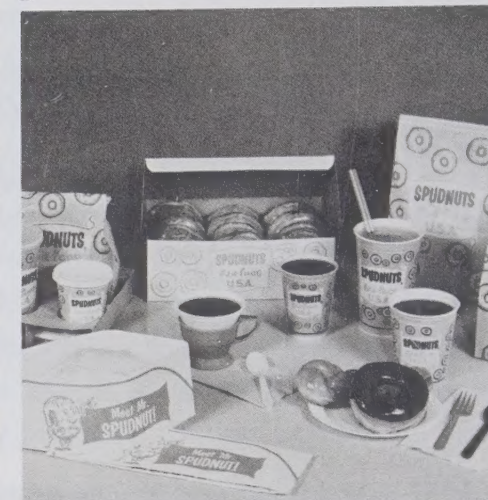
Spudnut Industries, recently described as the "sleeping giant" of the Pace group, is also embarking on a determined sales drive in Canada. The company's Canadian sales have been marking time in recent years with a small plant at Calgary supplying mix to a limited number of franchise outlets.

A Spudnut plant is being installed in the West Coast Vending plant in Vancouver, a major move towards developing an enlarged operation in Canada.

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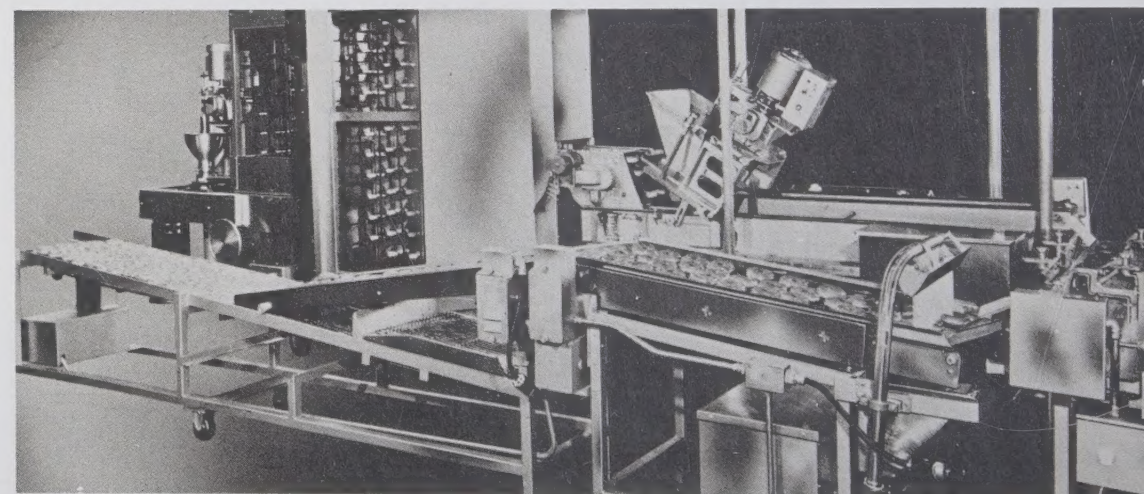
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A. Spudnuts

B. "Fun Food" U.S.A. is available at over 300 franchised outlets.

C. One employee can produce 250 dozen Spudnuts an hour on "Spudomatic 400".



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WEST COAST VENDING LTD.

West Coast Vending Ltd., the largest full-line vending company in British Columbia, was the fourth private firm to join Pace. The purchase was approved at the annual meeting of Pace in January, 1969.

West Coast has recorded consistent growth since it was founded by Irving Levenson, President, in 1951. Originally named Western Canada Sales, the company started in business with a few cigarette machines. In 1968, West Coast Canteen had 1,200 machines on location, and vended a wide range of products. Sales reached a record \$1.5 million.

1961 was an important milestone in the company's development. Levenson signed a partnership agreement with Peter and William Higgins of Canteen Inc. of Seattle, Washington, a franchised company of the mighty Canteen Corp. of America.

This agreement resulted in West Coast becoming the first franchised company of Canteen Corp. of Canada. The company became known as West Coast Canteen Ltd., the corporate title used until the purchase by Pace.

Acquisitions speeded expansion. Pacific Automat, bought in 1962, gave West Coast its first entry into full-line vending. Another company, S. Thompson and Associates, was purchased in 1965, and Kwik-Kanteen Co. Ltd. was acquired in 1966.

Accelerating sales forced West Coast to move headquarters five times as space requirements multiplied tenfold in only 14 years. In 1965, the company moved into its present plant, a modern, 8,000 square foot building at 8280 Manitoba St., Vancouver.

Standing on an acre of land, the plant was specifically designed by West Coast as a "vending factory". Well-equipped workshops permit the company to perform all its own machine repairs and servicing.

West Coast also sells both new and used equipment to other vending operators and the company was recently appointed exclusive distributor in British Columbia for the Rowe International equipment lines. Profits are increased through the company's ability to buy used machines and upgrade them on its own premises.

The present plant location allows easy access to all parts of Vancouver and is close to the area where the majority of West Coast's industrial accounts are located.

Levenson, a former executive vice-president of the Canadian Automatic Merchandising Association, believes that the future of vending in British Columbia has never been brighter.

An increasing number of industrial firms and institutions are selecting feeding through vending in preference to subsidized company cafeterias. The trend towards this type of In-Plant

feeding offers exceptional opportunities for West Coast.

West Coast has been at a disadvantage in the past because it has had to depend on outside caterers for sandwiches, pastries, salads, desserts and other items.

The sale to Pace has brought immediate benefits. A temporary commissary has been installed in the present plant by Oly Food Services. Work on a 4,500 square foot plant extension started on March 10th, and will provide space for an enlarged central kitchen.

With office construction continuing at a high level, West Coast is bolstering its sales staff to promote the use of the company's office coffee-making units.

In partnership with Oly's, West Coast now offers a complete range of catering services for the first time. The two companies are operating to advantage in the school-feeding project in North Vancouver. Hot and cold foods are offered by Oly's, and West Coast supplements this service with a varied range of vended products.

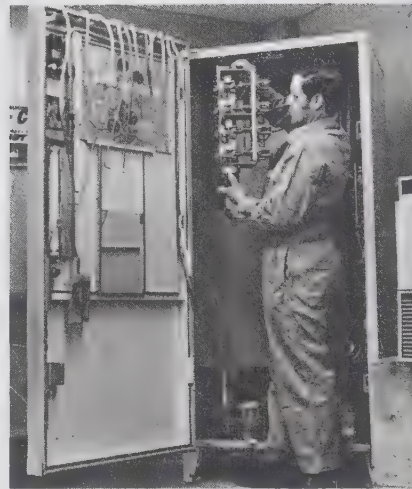
Such a combination will have a significant impact on the future earnings of Pace.

A. Used machine is upgraded at West Coast workshop.

B. Colorful bank of vending machines is part of catering service at Handsworth Secondary School.

C. Seven-day service to customers is provided by fleet of 14 radio-controlled trucks.

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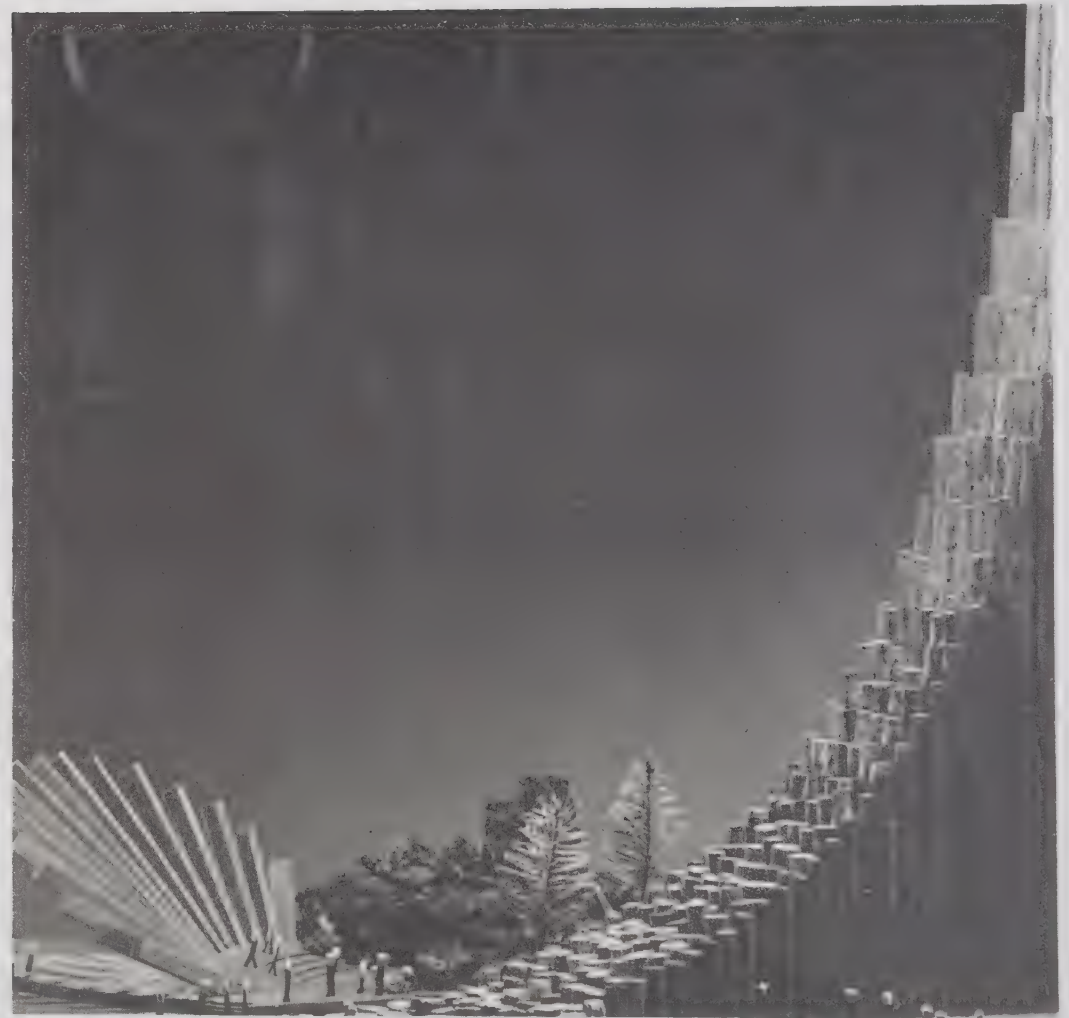


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"Little Oly" will operate only food concession in British Columbia Pavilion, Expo '70, Osaka, Japan. Photograph of model of Pavilion, designed by John Cunningham.



PACE INDUSTRIES LTD.

and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

as at December 31, 1968

ASSETS

Current:

Cash	\$ 42,515	
Accounts receivable	152,337	
Inventory — at the lower of cost or market	271,164	
Prepaid expenses	37,056	\$ 503,072

Long-Term:

Mortgage and notes receivable		91,969
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Fixed — at cost	\$1,286,447	
Deduct: Accumulated depreciation	426,677	
	\$ 859,770	

Leasehold improvements less amounts amortized	252,782	1,112,552
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Other:

Deferred expenses	\$ 8,731	
Share issue expense	134,616	
Franchise	262,457	
Incorporation costs	12,313	
Investments	1,075	419,192

Excess of cost of subsidiary over book value at dates of acquisition and goodwill		1,194,600
		<u>\$3,321,385</u>

LIABILITIES

Current:

Bank advances	\$ 29,370	
Accounts and notes payable	269,137	
Accrued charges	58,951	
Estimated income taxes payable (Note 4)	3,494	
Franchise option deposit	15,690	
Current portion of long-term debt	170,507	\$ 547,149

Long-Term:

Agreement payable — Note 1		455,585
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Contracts payable — secured — payments of approximately \$6,000 per month including interest at various rates	\$ 454,143	
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Deduct: Current portion shown above	170,507	
	\$ 283,636	

Debentures payable — 5% due December 31, 1976	89,225	372,861
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Share Capital (Note 3)		1,877,500
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Retained Earnings — per statement		68,290
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\$3,321,385

Prepared from the audited balance sheets of Pace Industries Ltd., Oly Food Services Ltd., and National Oven Products Inc., and the unaudited balance sheet of Spudnut Industries Inc., all as at December 31, 1968.

PACE INDUSTRIES LTD.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended December 31, 1968

Sales	\$3,013,379
Operating Costs	2,841,272
	<u>\$ 172,107</u>
Depreciation	93,472
Net Profit before Income Taxes	\$ 78,635
Provision for Income Taxes (Note 4)	3,494
Net Profit before Minority Interest	\$ 75,141
Minority Interest	8,563
Net profit for the year	<u>\$ 66,578</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Balance, beginning of period	\$ 23,807
Net profit for the year	66,578
	<u>\$ 90,385</u>
Loss on disposal of fixed assets	22,095
Balance, end of period	<u>\$ 68,290</u>

Prepared from the audited statements of operations and retained earnings of Pace Industries Ltd., Oly Food Services Ltd., and National Oven Products Inc. for the year ended December 31, 1968 and the unaudited statements of operations and retained earnings of Spudnut Industries Inc. for the three months ended December 31, 1968.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 1968

1. Effective October 1, 1968, the company and a subsidiary completed a purchase of the outstanding shares of Spudnut Industries Inc., for \$547,700 U.S. plus 20,000 shares of Pace Industries Ltd. The balance due on the agreement at December 31, 1968 was:

- (a) 20,000 shares of Pace Industries Ltd. to be issued on January 3, 1969.
- (b) \$144,100 on January 3, 1969.
- (c) \$48,000 per year including interest on October 1, 1969 through 1973.

2. On May 15, 1968 the company entered an agreement with certain shareholders to surrender by way of gift 606,000 shares.

3. Shares issued during the period:

	Shares	\$
Balance, December 31, 1967	1,185,000	\$ 632,500
Shares issued for cash	150,000	300,000
Shares issued to acquire balance of outstanding shares of Oly Food Services Ltd. and National Oven Products Inc.	150,000	990,000
Shares surrendered by way of gift (Note 2)	(606,000)	(45,000)
	<u>879,000</u>	<u>\$1,877,500</u>

4. The companies adopted methods of claiming depreciation and other expenses for income tax purposes which differ from the methods of recording these items in the accounts. As a result income taxes during the current period have been reduced by approximately \$9,000.

Note: no statement by auditor

